

## ROLE OF SMALL – SCALE INDUSTRIES IN INDIAN ECONOMY

*Prema Parande*<sup>1</sup>

<sup>1</sup> Dept. of Economics, V.V. Sangh Darbar Degree College, Bijapur, (Karnataka)-586103  
(E-mail: galaxybjp\_2005@yahoo.com)

**ABSTRACT:** Economic development experts are abandoning traditional Approaches to economic development that rely on recruiting large Enterprises with tax breaks, financial incentives, and other inducements. Instead, they are relying on building businesses from the ground up and supporting the growth of existing enterprises. This approach has two complementary features. The first is to develop and support entrepreneur sand small businesses. The second is to expand and improve. Infrastructure and to develop or recruit a highly skilled and educated workforce. Both efforts depend in large part on improving the quality of life in the community and creating an attractive business climate. new businesses will create jobs in the local community.

Given the role of small businesses in employment growth, supporting entrepreneurs and budding businesses is also likely to be an effective strategy. The hope is that some of these small businesses can grow to become the large firms of tomorrow and offer the kinds of benefits that typically come with employment in a large firm. The key to a successful strategy is to get the policies right. Evidence increasingly suggests that the right approach is usually to focus on developing an attractive and supportive environment that might enable any business, whether small or large, to flourish, and to allow the market to sort out which businesses succeed. Many communities have had succession creating this environment.

ECONOMIC development experts are abandoning traditional Approaches to economic development that rely on recruiting large Enterprises with tax breaks, financial incentives, and other inducements. Instead, they are relying on building businesses from the ground up and supporting the growth of existing enterprises. This approach has two complementary features. The first is to develop and support entrepreneur sand small businesses. The second is to expand and improve. Infrastructure and to develop or recruit a highly skilled and educated workforce. Both efforts depend in large part on improving the quality of life in the community and creating an attractive business climate. new businesses will create jobs in the local community.

Through innovation, some new businesses may grow into rapid-growth “gazelle” firms, which may spawn perhaps hundreds of jobs and become

industry leaders of tomorrow this article expands the shift in economic development strategies. The first section describes traditional economic development strategies. The second section explores the role that small businesses play in creating jobs. The third section examines how important small businesses are in the development of new products and new markets. Further, there is little convincing evidence to suggest that small businesses have an edge over larger businesses in innovation.

An alternative to recruiting large firms with tax incentives and other inducements is to focus on the small business sector. Perhaps the greatest generator of interest in entrepreneurship and small business is the widely held belief that small businesses create most new jobs. The evidence suggests that small businesses indeed create a substantial majority of net new jobs in an average year. But the widely reported figures on net job growth obscure the important dynamics of job creation and destruction. Nevertheless, small businesses remain a significant source of new jobs in the United States.

The small-scale industrial sector which plays a pivotal role in the Indian economy in terms of employment and growth has recorded a high rate of growth since independence in spite of stiff competition from the large sector and not so-encouraging support from the Govt. This is evidenced by the number of registered units which went up from 16,000 in 1950 to 36,000 units in 1961 and to 33.7 lakh units in 2001. During the last decade alone, the small-scale sector progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipments, T.V. sets, etc.

P.C. Mahalogi said, "In view of the meagerness of capital resource there is no possibility, in the short run for creating much employment through the factory industries. Now consider the household or cottage industries. They require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory industries." A significant feature of the Indian economy since Independence is the rapid growth of the small industries sector. In the Industries policy Resolution of 1948 and 1956, the small sector was given special role for creating additional employment with low capital investment.

A new thrust was given in favour of small unit by the Industrial Policy Statement of 1977. The share of modern small industries in the total output of this sector was 74 per cent in 1979-80 but their share in employment was only 33 per cent. Obviously, these industrial units would be having higher labour productivity. For instance, in 1979-80 a total output of Rs. 24,885 crores was produced by 78 lakh workers in modern small-scale industries - the average product of labour being Rs. 31,900. Make a significant contribution to earning foreign exchange for the country. Under these circumstances, active

encouragement of handicrafts is a must. Small industries are largely carried on by labourers and artisans living below the poverty line, while modern small industries can provide a good source of livelihood. Hence, if with an expansion of employment, the number of persons living below the poverty line has also to be reduced, then a rapid and much larger expansion of the modern small sector will have to be planned.

The Govt. has been following a policy of reservation of items for exclusive development in the small – scale sector. At the time of the 1972 Census of small – scale Industrial Units, there were 177 items in the reserved list. By 1983, the reserved list included 837 items for exclusive production in the small-scale sector. These units produce over 8,000 commodities.

Census 2001-02 reported that 97.2% of the registered SSI units were proprietary, only 1.3 per cent were partnerships and 0.5 per cent were private companies and just 0.1% were co-operative. In other words, the dominant type in the ownership pattern is proprietary with a small fraction operating as partnerships.

**Table 1**  
**Production, Employment and Exports in Small Scale Sector**

<i>Year</i>	<i>Registered</i>	<i>No. of Units (in lakhs) Unregistered</i>	<i>Total</i>	<i>Production (Rs. crores) at Current Prices</i>	<i>At 1993-94 Prices</i>	<i>Employments (Lakhs)</i>	<i>Export (Rs. crores) at Current Prices</i>
1994-95*	19.44	6.27	25.71	298,886	266,056	146.56	29,068
1996-97	11.99	74.22	86.21	168,413	135,380	205.86	39,248
1998-99	12.00	81.36	93.36	212,901	159,407	220.5	48,979
2000-01	13.10	88.00	101.10	161,289	184,428	239.09	69,797
2002-03	14.68	95.42	110.10	311,993	210,636	261.38	86,013
2004-05	16.57	102.02	118.59	429,796	372,938	282.57	1,24,417
2006-07	–		128.44	585,112	471,663	312.52	177,600
2007-08	–		133.68	695,126	532,979	322.28	NA
			4.02			4.07	

\*These figures relate to data given by Ministry of small Scale Industries earlier.

Source: Ministry of small Industries as given in Economic Survey (2007-08) and Ministry of small scale Industries.

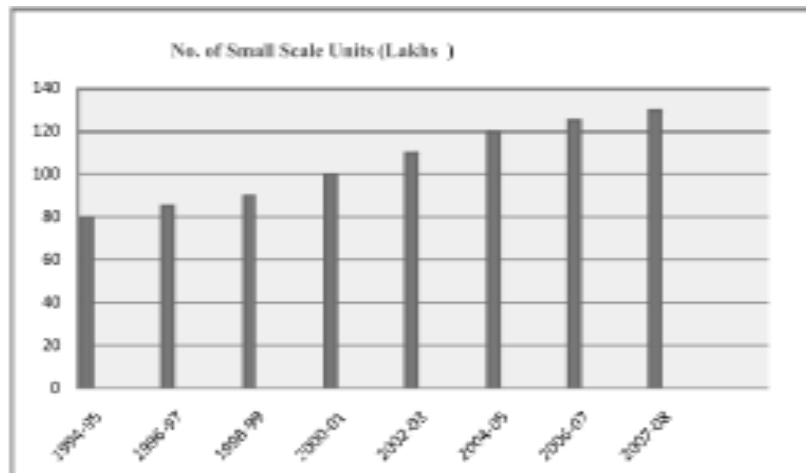
### **OUTPUT AND EMPLOYMENT OF THE SMALL INDUSTRIES**

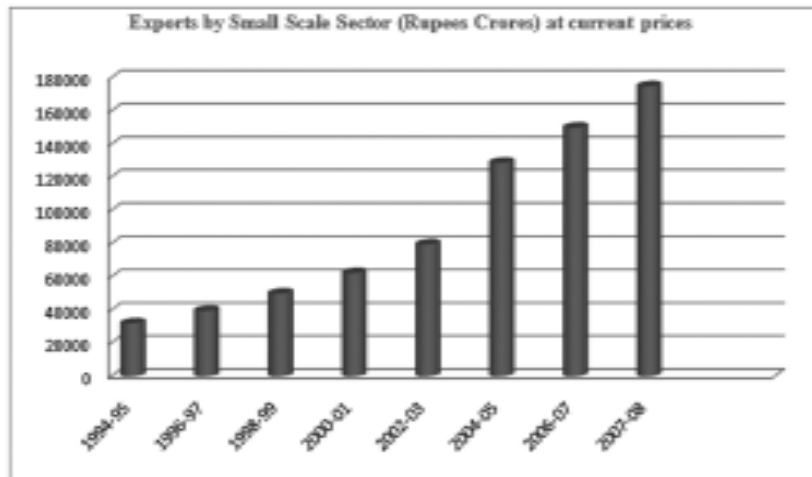
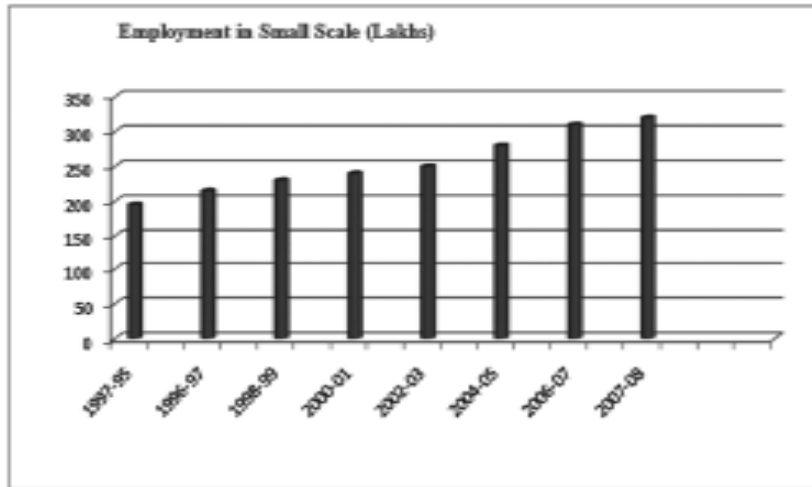
According to the Third Census, in 2001-02, there were 13.75 lakh units in the registered sector and 91.46 lakh units in the unregistered sector, thus recording a total number of 105.21 lakh units in the SSI sector production by SSI sector. Keeping these facts in view, the Ministry of small Scale Industries has revised the data pertaining to SSI sector. For the purpose of comparison, the figures given earlier by the Ministry have also been provided in Table 1.

The data reveal that the total number of SSI units has increased from 79.6 lakhs in 1994-95 to 133.68 lakhs in 2007-08 indicating an annual average growth rate of 4.1 per cent, but their production (at 1993-94 prices) increased from Rs. 1,09,116 crores in 1994-95 to Rs. 2,77,668 crores in 2005-06 i.e an annual average growth of 8.8 per cent. As a consequence of the increase in SSI units, more especially in the unregistered sector, employment increased from 191.4 lakhs in 1994-95 to 322.3 lakhs in 2007-08, recording an average growth rate of 4.07 per cent per annum. So far as exports by the SSI sector are concerned, they increased from Rs. 29,068 crores in 1994-95 to Rs. 1,77,660 crores in 2006-07, recording a growth rate of 16.26 per cent per annum. The Ministry has not changed the data pertaining to exports. On the whole, it can be stated that during 1994-95 to 2007-08, the SSI sector recorded an annual average growth rate of production by 13.6%, (at correct prices) of employment by 4.07 per cent and of exports by 16.26%. This is a creditable achievement.

Obviously, the growth rate of the small-scale sector has been faster both in terms of output and employment. In other words, the output employment ratio for the small scale sector is 1:1.4. The rapid growth of the small-scale industries has a great relevance in our national economic policies. The growth of the small sector improves the production of the non-durable consumer goods of mass consumption. As such, it acts as an anti-inflationary force. If a stabilizing factor in a capital – scarce economy like India by providing a higher output capital ratio as well as a higher employment- capital ratio.

In this connection, we may refer to the relatively low capacity utilization of the small-scale Industries. The capacity utilization in the small sector as a whole was of the order of 53 per cent. There were, however, many units having high capacity utilization e.g. Industries utilizing 60 to 80 per cent of the capacity included leather goods, readymade garments, tiles, woolen knit ware etc. Industries like plastic products had very low capacity utilization (29 per cent).





*Exports:* Substantial increase in export were observed in the case of readymade garments, canned and processed fish, leather sandals and chappals, food produces, hosiery and marine products, etc. The value of exports increased to Rs. 1,643 crores in 1980-81 and to a record high figure of Rs. 1,50,242 crores in 2005-2006. A very significant feature of exports from the small - scale sector is their share in non-traditional exports. The share of exports from the small-scale sector represents about 32.3 per cent of total exports in 2005-2006.

The obvious conclusion is that the growth of SSIs in terms of number and output is comparatively much higher in reserved items than in unreserved items. The policy of reservation has therefore, positively helped the growth of this sector.

Thus, Medium, Small and micro Enterprises (MSMEs) at present occupy an important position in India economy. In 2006-07 about 260 lakh MSMEs were producing about 5000 varieties of goods and their gross value of output was Rs. 4,97,482 Crores. They provide employment to about 600 lakh people. During 2005-06 Rs. 1,50,242 Crores worth small scale products were exported. Their share in the total exports was about 33 per cent.

Thus, small industries at present occupy an important position in India economy. In 2001-02 about 34.42 lakh small scale units were producing about 5000 varieties of goods and their gross value of output was Rs. 6,90,316 crores. They provided employment to about 192.23 lakh people. During 2000-01 period they achieved 11.3 per cent annual growth and Rs. 69,797 crore worth small scale products were exported. Their share in the total exports was about 35 per cent.

It suggests that small businesses may not be quite the fountainhead of job creation they are purported to be, especially when it comes to high-paying jobs that are stable and offer good benefits. Moreover, while small businesses are important innovators in today's economy, so are large businesses. More clear is that smaller businesses are more efficient at innovation, which means they produce more innovations for a given amount of R&D. Thus, they often create more innovation value per given amount of R&D. Part of this may be due simply to underestimation of R&D expenditure at smaller firms, but others suggest that small firms are more effective in taking advantage of knowledge spillovers from other firms. Still, small firms create the majority of net new jobs and are critical innovators, and efforts to encourage the formation and growth of small enterprises are probably sensible in most cases.

Given the role of small businesses in employment growth, supporting entrepreneurs and budding businesses is also likely to be an effective strategy. The hope is that some of these small businesses can grow to become the large firms of tomorrow and offer the kinds of benefits that typically come with employment in a large firm. The key to a successful strategy is to get the policies right. Evidence increasingly suggests that the right approach is usually to focus on developing an attractive and supportive environment that might enable any business, whether small or large, to flourish, and to allow the market to sort out which businesses succeed. Many communities have had success in creating this environment.

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